



*Andrew Junkin, CFA, CIMA, CAIA
Managing Director & Principal*

January 26, 2009

Mr. Theodore Eliopoulos
Interim Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Global Equity Pool Refresh¹

Dear Ted,

You requested Wilshire's opinion with respect to Staff's proposal to add managers to the Spring Fed pools for 1) domestic enhanced index managers, 2) international developed country managers, and 3) international emerging markets managers. Wilshire has had extensive discussions with Staff during this process, conducted our own due diligence, and participated with Staff during the interview process in Sacramento.

Recommendation

Wilshire concurs with staff that: 1) no managers should be added to the domestic enhanced index manager pool, 2) the Investment Committee should approve adding OFI Institutional, Martin Currie, and Principal Global Investors to the international developed country manager pool; and 3) the Investment Committee should approve adding Aberdeen Asset Management, Pyramis Global Advisors, and Wellington Management to the international emerging markets manager pool. Each of the firms has demonstrated an investment process that cannot be replicated internally, has added value over long periods of time, is consistently applied, and will further diversify the sources of return in CalPERS' global equity portfolio.

Background

Wilshire worked with Staff to identify firms with investment processes which would complement the current global equity portfolio. Staff and Wilshire had numerous

¹ Wilshire's Code of Conduct requires us to disclose which of the above firms are clients of Wilshire's Analytics Services Division and as such pay Wilshire a fee for the licensing of analytical software used in investment management. Wilshire's consulting division has no business relationship with them. This disclosure has been delivered under separate cover.

discussions to identify top managers, to vet each manager's process and organization, evaluate the performance of each manager in the context of recent markets and their stated approach, and to form an outlook as to the manager's ability to add value going forward.

A brief description of each firm's investment process follows, followed by relevant performance data.

OFI Institutional

OFI Institutional manages international equities using a diversified growth-oriented style. The team uses a low turnover strategy and constructs a portfolio of roughly 110-160 securities. OFI uses a thematic approach that seeks to capitalize on such long term themes as mass affluence, new technologies, restructuring, and the aging population. Within this thematic framework, the team conducts thorough bottom-up research and conducts on-site visits with management. The team seeks to identify companies with faster than average revenue growth (relative to the appropriate sector or industry), sustainable margins, and efficient uses of capital.

Martin Currie

Martin Currie manages a concentrated international equity portfolio of roughly 40-50 securities. The firm uses a proprietary quantitative screening tool (the Dynamic Stock Matrix or DSM) to evaluate companies in four broad categories: quality, growth, positive change, and value. The DSM is used to generate ideas which are evaluated by a team of analysts. Once ideas have been identified, the team conducts thorough fundamental research, which is focused on confirming the attractiveness of the stock and identifying those companies most likely to have a notable change in their business dynamics as a result of strategic improvement, better management, industry or economic trends, or restructuring.

Principal – Core

Principal's Core product is a diversified portfolio of roughly 150-250 securities. The team employs a mostly bottom-up investment approach with some top-down components. The process focuses on companies with improving fundamentals (such as margin expansion), sustainable businesses, rising expectations (analyst/estimate revisions), and attractive valuations. The team also leverages the firm's quantitative model for idea generation, focusing on the top quintile of companies. This portfolio is risk controlled with limits on security, sector, and country-level active weights.

Aberdeen – Emerging Markets

Aberdeen builds its portfolios based on deep fundamental research. The firm conducts over 1000 on-site meetings per year and will not invest in a company that the firm has not visited. The primary emphasis of the investment process is on quality, defined in a number of ways: franchise, management skill, cash flow recurrence, balance sheet clarity, and corporate governance. Typically, portfolios contain between 50-60 securities and have wide ranges around sector and country weights. Aberdeen seeks to mitigate risk in an absolute sense on a stock by stock basis.

Pyramis – Emerging Markets

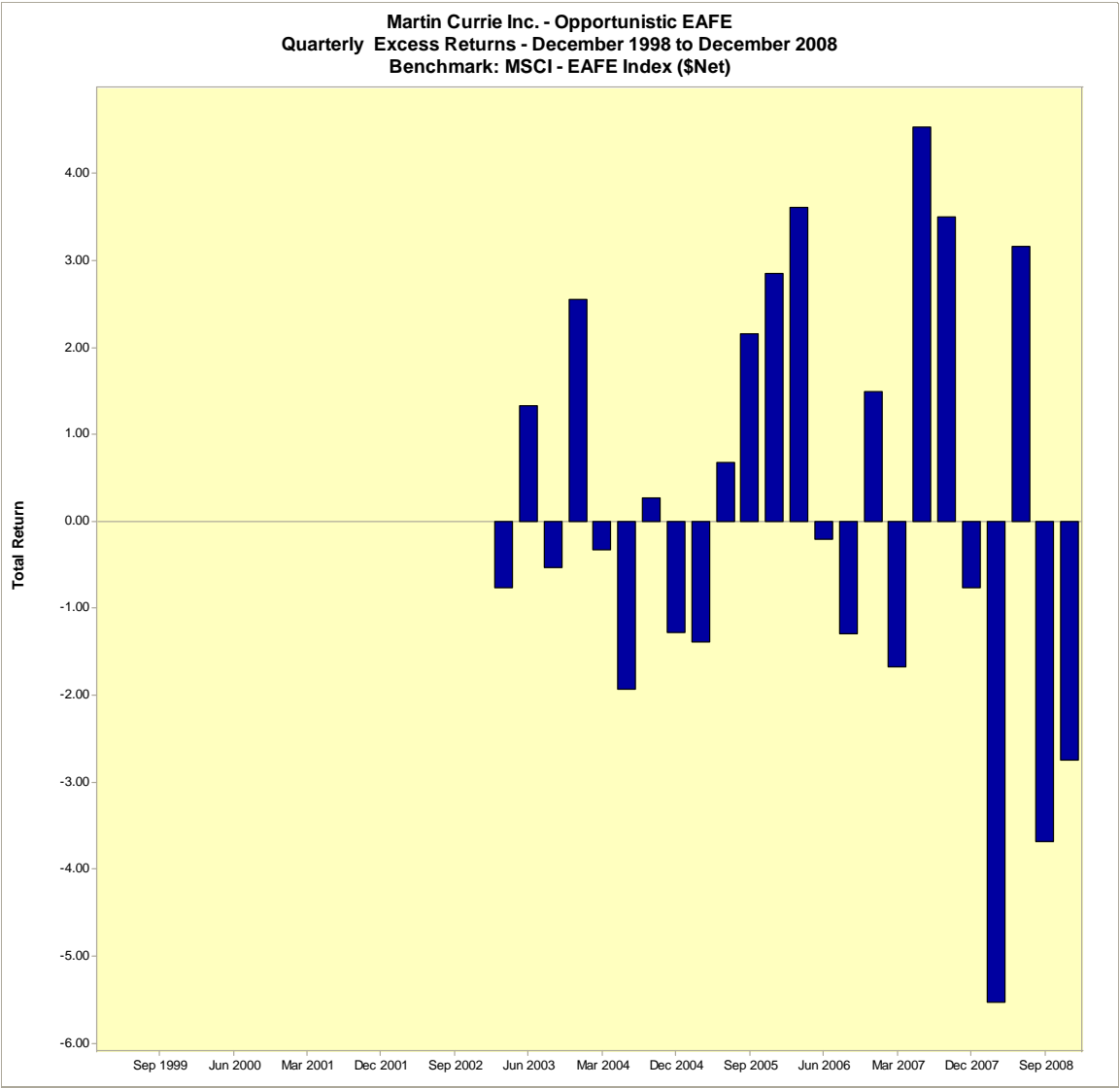
Pyramis runs a highly diversified emerging markets product that typically holds between 275-325 securities. Pyramis uses its size and global reach to its advantage in managing this product. The firm has local analysts in London, Tokyo, and Hong Kong. The firm's stock selection process is focused on intrinsic value. Fundamental analysis covers not only financial reports, but also buyer and supplier factors, management, valuation relative to history, and a view on top-down and country factors. This portfolio has fairly tight limits on country and sector weights, relative to the index. Therefore, most of the value added has come from stock selection.

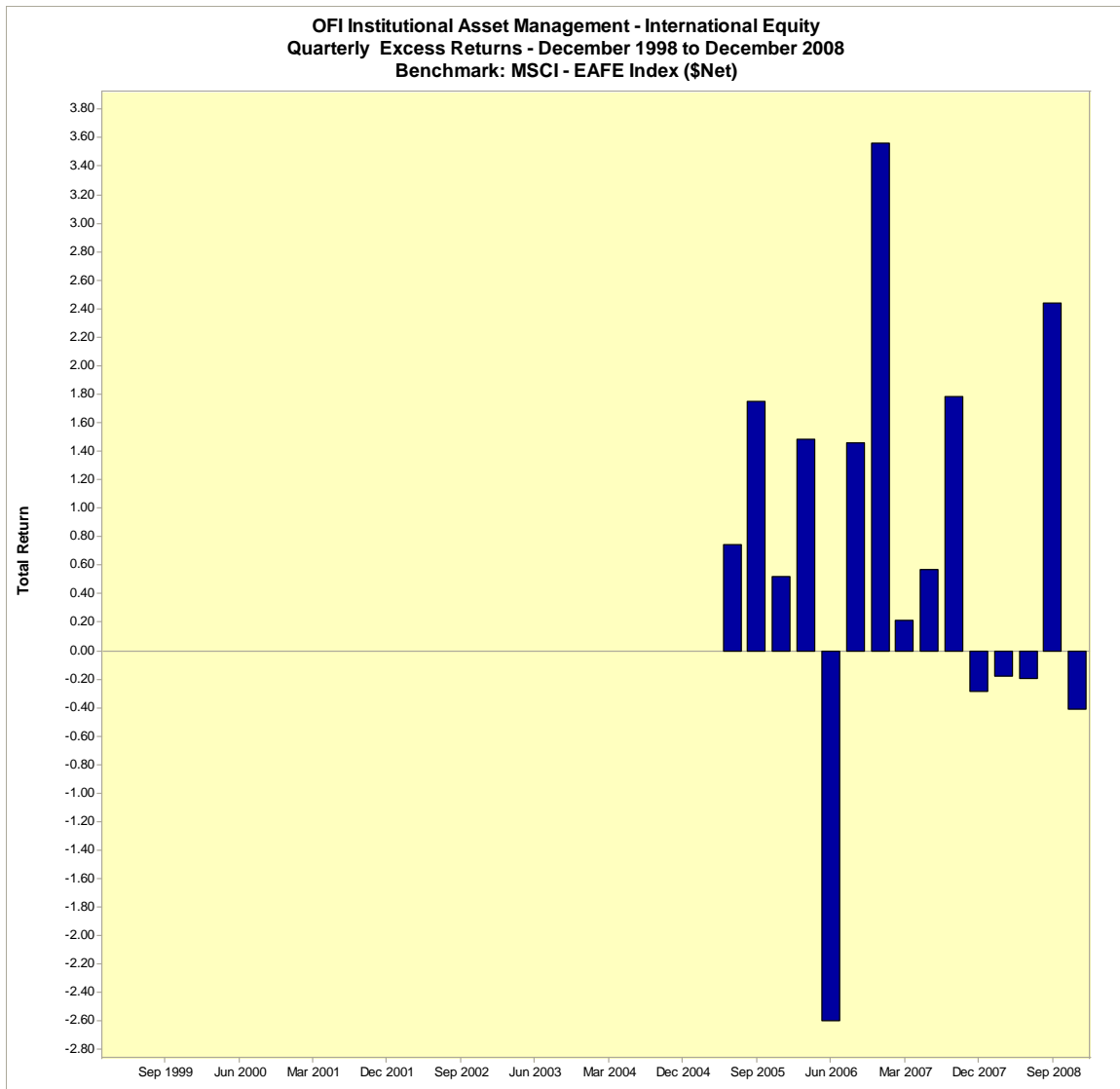
Wellington – Emerging Markets

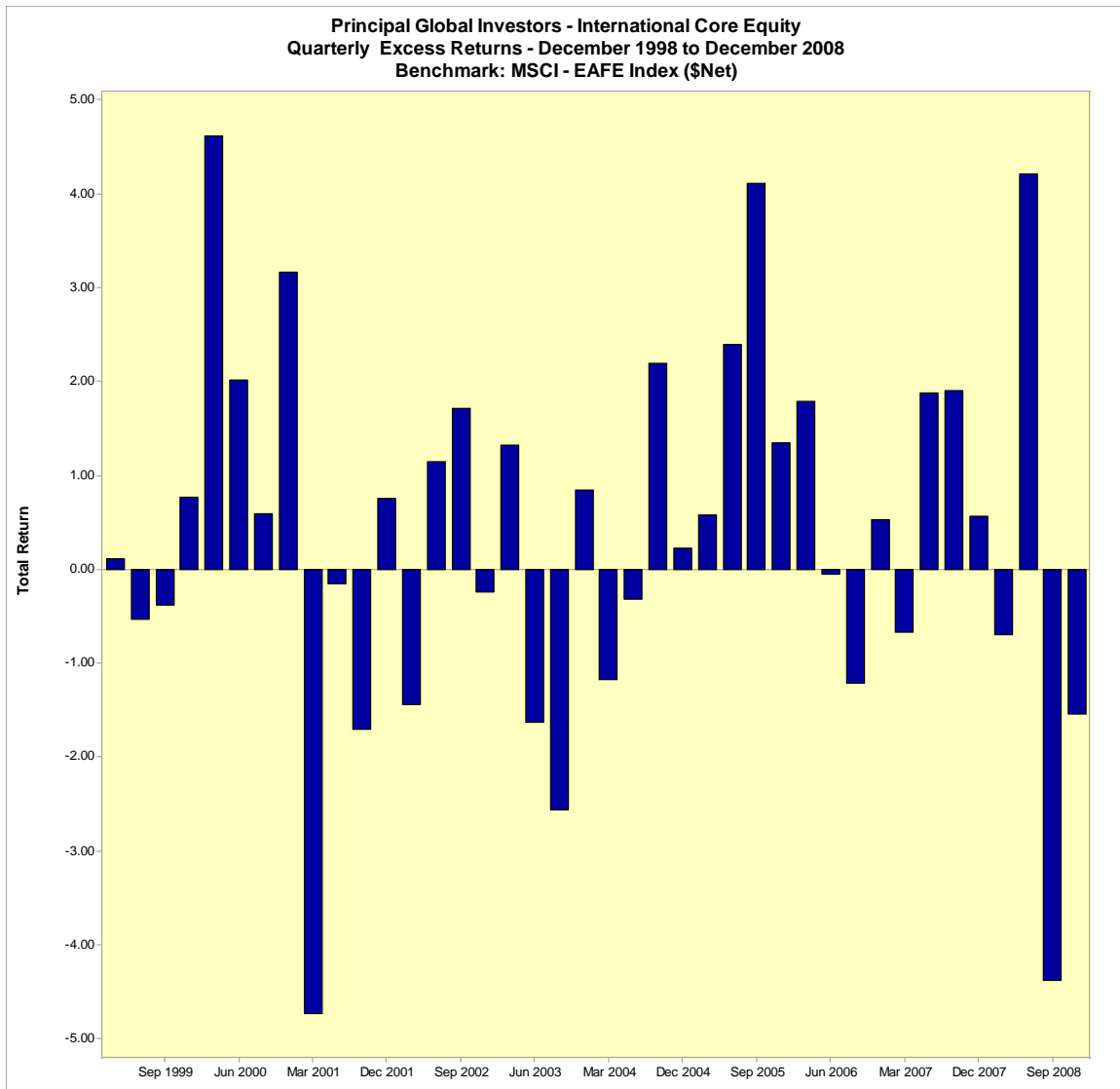
Wellington runs a concentrated portfolio of 80-100 securities in this emerging markets product. The team blends top-down and bottom-up analysis in its approach to forecasting. From a country perspective, Wellington evaluates P/E, P/BV, equity risk premiums and yields in the context of local interest rates to determine relative attractiveness. From a sector and company perspective, Wellington uses sector-specific measures to gauge a company's attractiveness. The team incorporates "Porter's Five Principals" analysis, cyclical outlook, management quality, and market share in evaluating companies. Due to Wellington's process, about half of the expected risk budget of the portfolio is spent on country and sector decisions and about half is spent on security selection. While this portfolio is best categorized as "core", it may contain a slight growth bias from time to time.

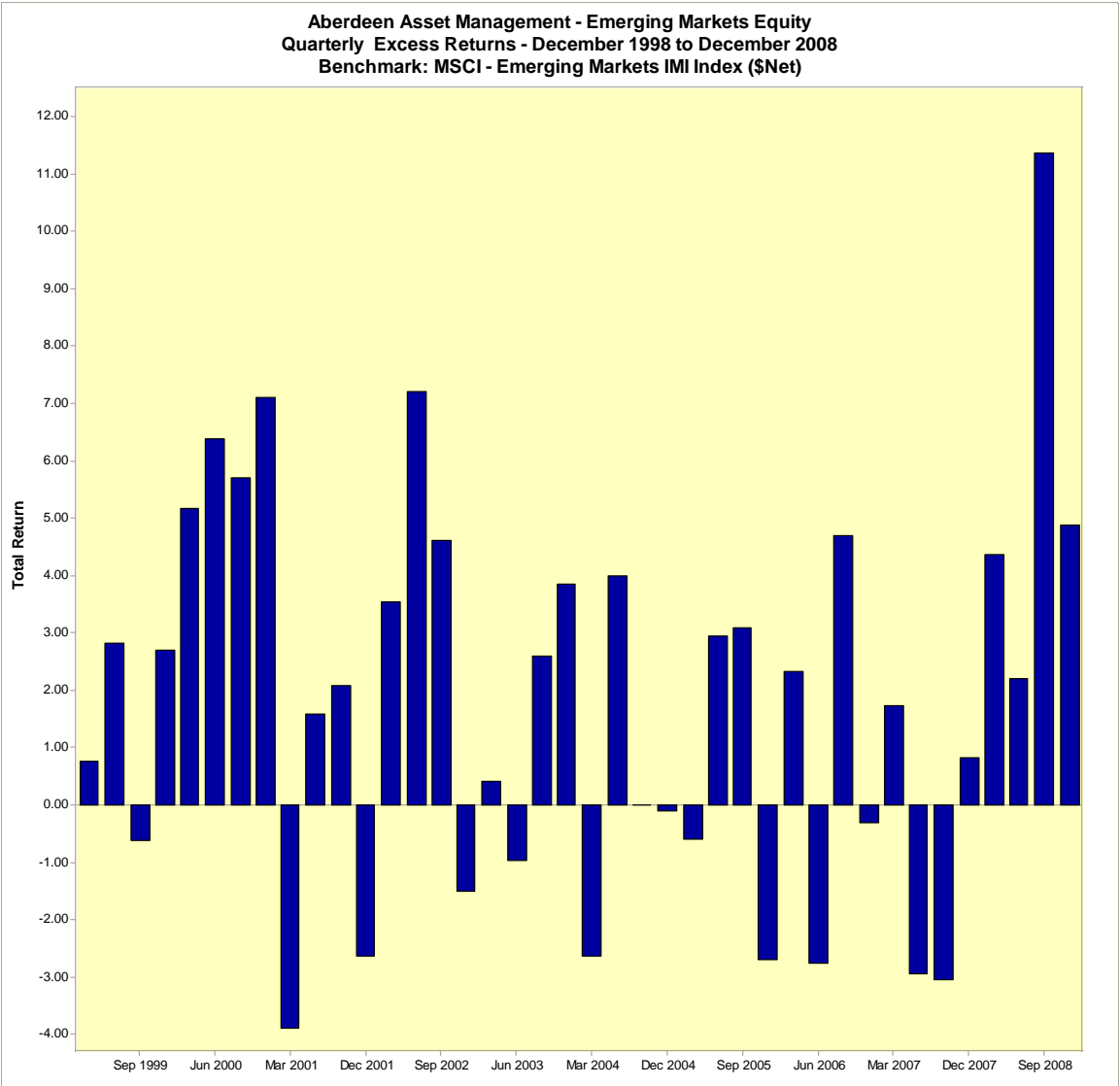
Performance Evaluation

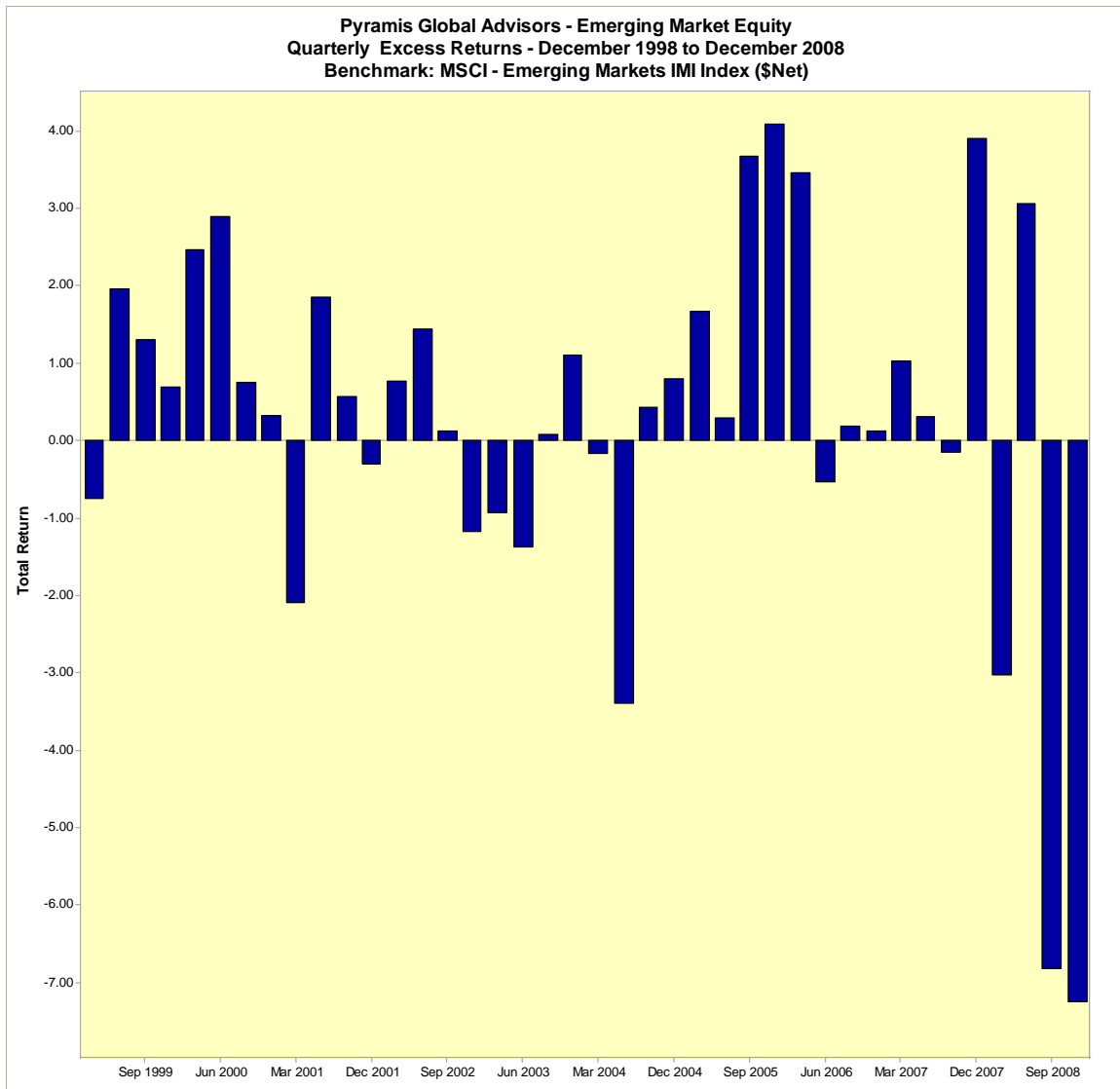
The following charts present the excess returns of each product on a quarterly basis for the last ten years. Data is provided through December 31, 2008.

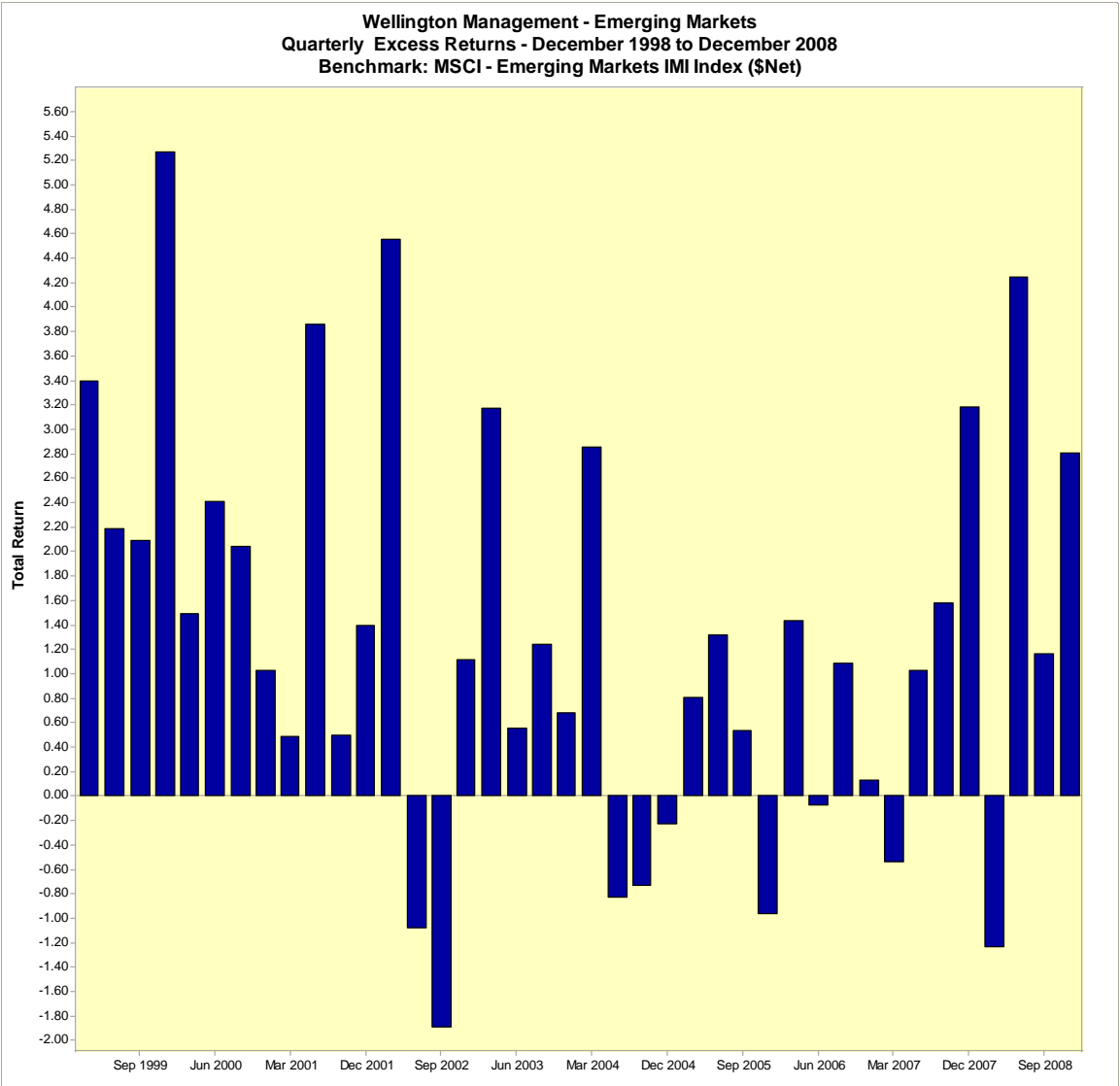




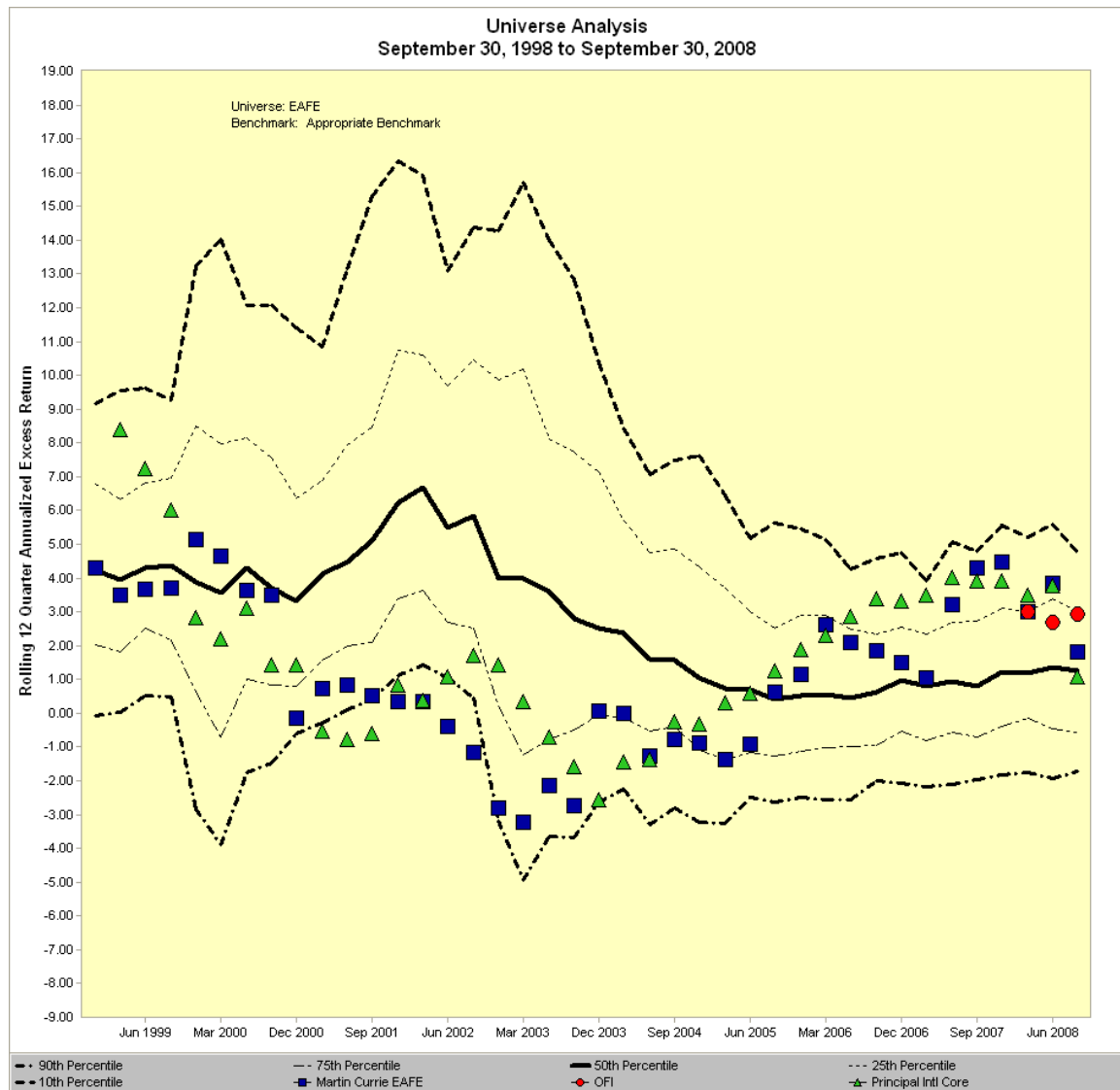


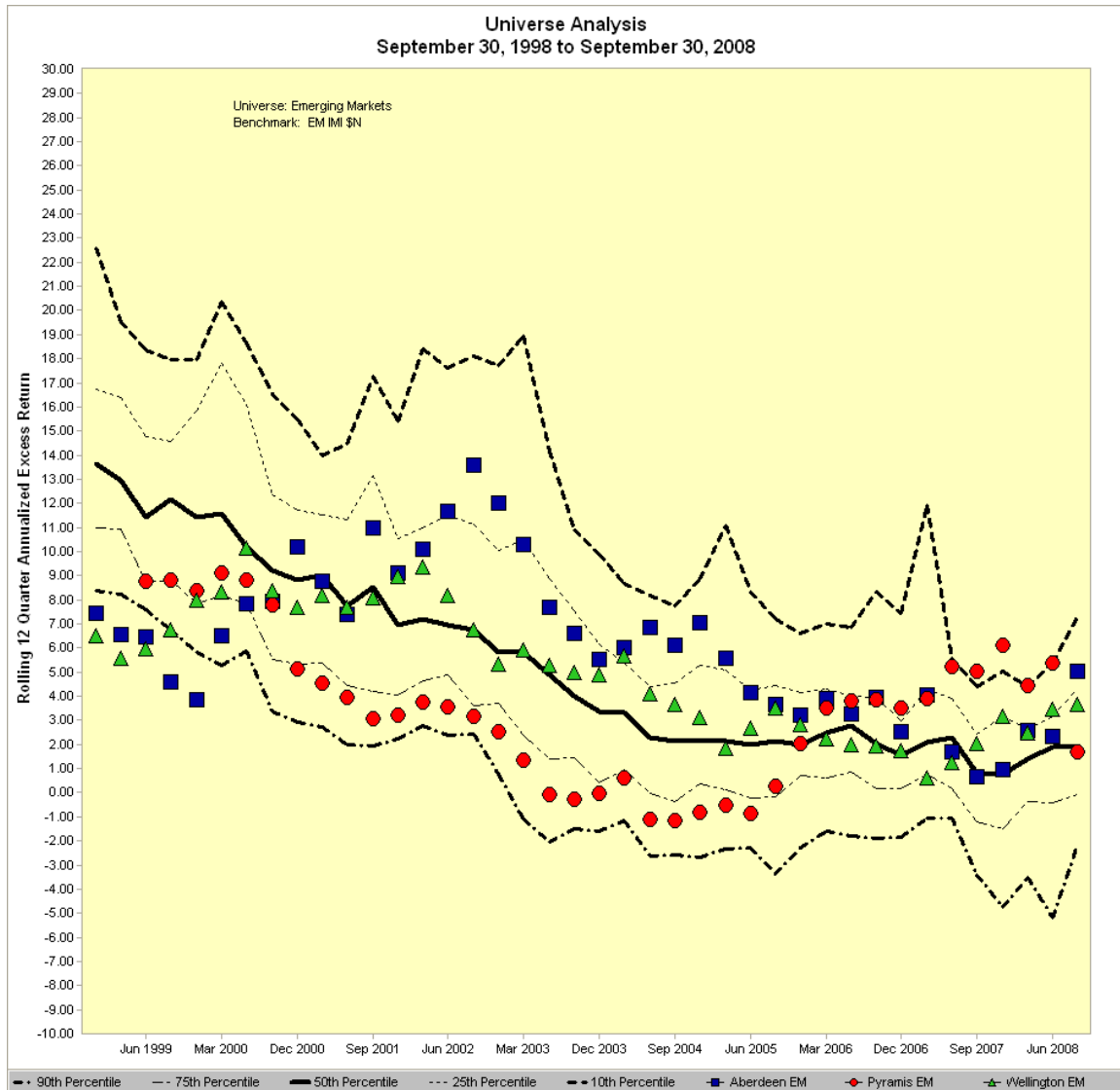






The following charts present each firm's universe ranking on a rolling 3-year basis. Note that these charts present excess returns and are updated through September 30, 2008 (robust universe data is not yet available for the 4th quarter of 2008).





Conclusion

Wilshire worked extensively with Staff during the pool refresh process and had significant input on this search. We feel that each of the managers being recommended for the various pools offers an approach that cannot be replicated internally, adds to the diversification of the existing portfolio, and brings additional sources of alpha into the global equity portfolio.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read "Alan Jinn". The signature is fluid and cursive, with a large initial "A" and a long, sweeping underline.